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FARM INPUT UPDATE
See p. 4

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Economic Research Service U.S. Department of Agriculture

THE FARMER AND THE POCKETBOOK

Fresh from making $26 billion in 1973, by far the highest realized net farm income in history, American farmers are planning to increase crop output sharply again in 1974. If they do, and if demand for farm products remains strong through most of the year, as seems likely, their earnings may well approach those of last year and hold sharply above the prior high of $20 billion of 1972.

Their cash receipts are likely to rise by $9 billion, but that will be largely canceled out by a similar boost in production expenses. Meanwhile, government payments to farmers will be only a fraction of 1973's $2.6 billion. Overall, a $1 or $2 billion decline in realized net farm income is likely.

Through the first half of 1974, both livestock and crop prices will probably stay high because of continued strong domestic and foreign demand and tight supplies. In the second half, however, 1974's larger intended crop acreage will be harvested and there are prospects for increases in red meat and poultry production. These developments point to an easing in farm prices late in 1974.

However, the uncertainties can not be overlooked. To achieve the record output, the farmer must have fuel, fertilizer, good weather, and they must expect good demand. If widespread shortages of inputs develop, weather is not favorable or demand appears too uncertain, output would be curtailed and in the face of strong demand, net farm income could reach $30 billion. On the other hand, if the energy crisis were to generate a concerted slowdown in major foreign markets and the U.S. economy were to weaken sharply under high inflation and increasing unemployment, demand would be substantially weaker. With this weaker demand, a record farm output could result in farm income of $20 billion.

Nevertheless, farm prices for 1974 will average well above last year. And last year, you will recall, was a whopper. Although marketings of farm products slipped a little from 1972's level, farm prices were up 37 percent.

Realized net income per farm last year averaged $9,193, up from $6,856. The total 1973 personal income of farm people reached $41 billion, up $7 billion. Income from farm sources rose $5.4 billion while income from nonfarm sources increased $1.6 billion. Disposable personal income per capita of farm residents from all sources was a record $3,913, up $731. For nonfarm people, it was $4,208, up $316. Thus, the ratio of the income of farm people to nonfarm people increased to 93 percent in 1973, continuing to narrow the gap.

FEED SUPPLIES, PRICES

Feed grain prices are nearly double those of a year earlier and will stay strong over the next few months because of tight supplies and strong demand. Prices this summer will hinge primarily on 1974 crops and foreign demand and production prospects.

January plans by farmers included planting of 78.8 million acres to corn, 10 percent above 1973. If the projected yield of 97 bushels is achieved, that acreage would produce a crop of 6.7 billion bushels, 18 percent above 1972.

This crop increase, however, will be partly negated by a smaller carryover. Carryover on October 1 will drop to about 600 million bushels, about 15 percent less than a year earlier and the lowest since 1952.

Domestic feeding of protein feed is estimated at 20 million tons, 8 percent above 1972/73 but still only near the high marks set during 1969-71. Prices this season are lower and much more stable than last year. The large U.S. supply of soybeans is stabilizing the market as meal prices (Decatur) in recent weeks have ranged between $150 and $175 per ton. Barring new developments in export demand, meal prices likely will continue near current levels until the soybean crop outlook becomes clearer this summer.

FORECASTING FOOD PRICES

While retail food prices for all of 1974 will average higher than in 1973, the extent of increase will depend on how much food output is stepped up, the strength of foreign demand for food commodities, and conditions in the U.S. economy.

Under the expected or most likely conditions for each of these factors, retail food prices for all of 1974 may average about 12 percent above 1973. Much of this increase has already occurred through January and February.

Retail food prices in the first quarter of 1974 are likely to average about 5 percent above the fourth quarter last year. The rate of increase is expected to slow during the spring, with second quarter prices averaging 2-3 percent above the first quarter. During the second half, food prices are likely to level off as declining farm prices offset a continued widening in farm-to-retail price spreads.

If food output increases much more than present indications suggest and at the same time foreign and domestic demand fall below current indications, food prices for all of 1974

may average about 8 percent above 1973 due to smaller increases through midyear. On the other hand, if 1974 food output turns out much below what is now indicated and demand proves to be stronger than expected, prices could average as much as 15 percent higher for the year.

In 1973, the 14½ percent increase in retail food prices represented the largest increase in a quarter century. Away-from-home food prices averaged almost 8 percent higher, while grocery store food prices were up about 16 percent. A large part of this rise reflected the 22-percent increase for foods derived from livestock products. Prices of crop related foods advanced at about half that pace.

For all of 1973, food expenditures rose over 11 percent to $139 billion, the largest annual increase since 1951. All of last year's advance resulted from higher prices.

Per capita food consumption declined 2 percent in 1973, with all of the decline due to lower consumption of livestock related foods. Consumption of crop foods rose 1 percent due to increases for processed fruits and vegetables, with restrained price rises for these items encouraging at least some of the gain.

TIGHT MEAT SUPPLIES

For the first half of 1974, livestock prices will continue high with marketing volumes little different from a year earlier. Larger supplies and lower livestock prices are predicted after midyear.

Early 1974 beef supplies are about the same as a year ago, and higher fed cattle prices are in prospect this winter and spring. After rising sharply from the $40 range last fall, Choice steer prices at Omaha ran mostly near $48 per 100 pounds in January and early February. Late-February prices slackened some. There are substantially more cattle available for feedlot placement this year, suggesting a rise in beef output in the second half and lower cattle prices.

However, due to substantially higher feed costs, increases in marketings may be modest relative to the potential suggested by the inventory of young cattle. Past trends favoring placement of younger and lighter cattle on feed may be interrupted for a while. Producers may leave them on roughage longer before putting them on feed at heavier weights or sending some directly to slaughter.

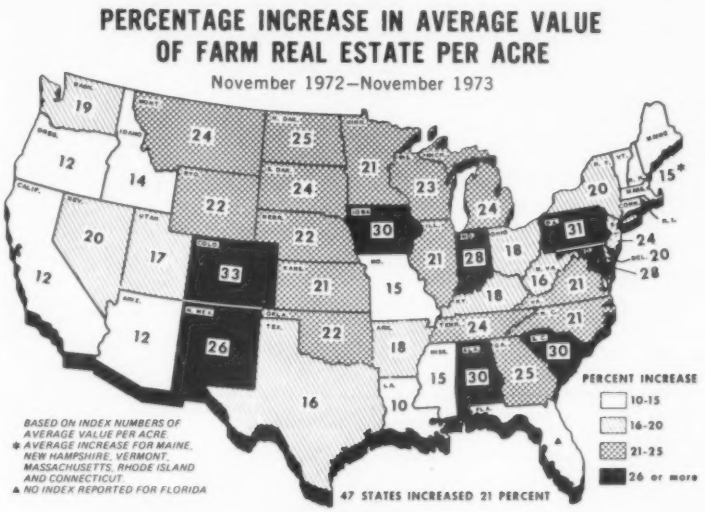
Hog slaughter this winter is running fairly close to last winter. Hog prices in February were running near $41. If marketings continue to lag inventory indications, as they did in 1973, first half slaughter might about equal the year-earlier pace, and the seasonal price rise into summer will be about normal and less than the $8 increase of a year earlier. Since feed grain prices have gone back up above last summer's peaks, hog farmers are unlikely to farrow more pigs this winter and spring. Still, pork production in the second half could exceed July-December 1973.

CATTLE EVERYWHERE

Higher cattle prices in recent years have encouraged stockmen. On January 1, 1974, there were 127.5 million cattle and calves reported on farms and ranches, up 6 million head from the year before. We had expected an increase of 8 million or more. But there were unusually heavy death losses during 1973, and a downward revision in the previously estimated 1973 calf crop. The gain was substantial anyhow. It followed expansions of 4 million head in 1972, 3 million in 1971, and just over 2 million in both 1969 and 1970. Thus, there are 17.5 million more cattle on farms and ranches than there were 5 years ago.

Most of this expansion has been in beef cows and calves. Beef cow numbered 42.9 million head last January, up 5 percent from a year earlier and one of the larger increases during the past decade. Replacement beef heifers increased to 8.2 million, up 10 percent. Thus, cattlemen will more than replace the cows they culled out last year. On January 1, the number of animals weighing under 500 pounds, the bulk of the 1973 calf crop, totaled 34 million, up 5 percent.

BOOMING FARMLAND DEMAND


PERCENTAGE INCREASE IN AVERAGE VALUE OF FARM REAL ESTATE PER ACRE
November 1972—November 1973
PERCENT INCREASE
10-15
16-20
21-25
26 or more
47 STATES INCREASED 21 PERCENT
BASED ON INDEX NUMBERS OF AVERAGE VALUE PER ACRE.
* AVERAGE INCREASE FOR MAINE, NEW HAMPSHIRE, VERMONT, MASSACHUSETTS, RHODE ISLAND AND CONNECTICUT.
▲ NO INDEX REPORTED FOR FLORIDA

The index of farm real estate values shot up 21 percent in the year ended November 1, 1973. This is the second highest 12-month increase ever recorded—trailing only the 22-percent upswing recorded on March 1, 1920. It also shows a substantial upturn from the 13 percent reported for the year ended March 1, 1973.

Colorado led all States with a 33-percent increase, followed by Pennsylvania with 31 percent, and South Carolina, Alabama, and Iowa each with 30 percent. Louisiana reported the lowest rate of increase—a substantial 10 percent. Interestingly, this "lowest" rate of increase for any State still surpassed the 7-percent average annual compound rate of increase for the United States over the past decade.

Nationwide, farmland values have increased 70 percent since March 1, 1967. Over this 6 1/2 year period, however, increases by State varied from 186 percent in Nevada to 27 percent in California.

WHEAT: FROM LITTLE TO PLENTY

A record export pace and prospects for extremely small wheat stocks this spring dominate the 1973/74 wheat outlook.

Exports are currently estimated at a record 1.2 billion bushels, up slightly from a year ago and a record for the second consecutive year. Exports during July-December totaled a record-shattering 737 million bushels. The pace is expected to ease noticeably in January-June. Domestic use has not been quite as strong as last season. Wheat feeding has fallen off, reflecting the increased cost of wheat relative to other grains. However, food usage is expected to be up for the year as price comparisons appear to be influencing consumers to switch to wheat products. Growers will likely use around 20 percent more seed wheat.

Total disappearance for the year will exceed the 1973 crop, causing old-crop stocks on July 1 to plummet to around 180 million bushels, smallest in 27 years. Supplies of 1974-crop wheat harvested in June may help ease the pressures. In addition, some exports have been deferred and quotas on U.S. imports of wheat have been temporarily lifted.

Mid-month farm prices of wheat averaged $2.47 in July 1973, and have since risen to over $5.00 per bushel. For the season, farm prices are likely to average around $3.90 per bushel, up from $1.76 in 1972/73.

U.S. wheat growers are riding another record crop. Based on a 19-percent increase in planted acreage, the 1974 wheat crop could total around 2.1 billion bushels. If world crops return to more normal levels, demand for U.S. wheat could weaken significantly in 1974/75. U.S. exports are projected to drop around a sixth to 1 billion bushels while domestic use is expected to be about the same as in 1973/74. With demand projected to turn down and a record crop in prospect, carryover by the summer of 1975 could more than double to around 480 million bushels.

MORE COTTON ACREAGE

Strong demand and attractive prices are spurring greater cotton planting intentions this year. Farmers say they will plant about 14 1/2 million acres of upland cotton in 1974, based on January 1 intentions. This would be slightly over 2 million acres above both 1973 plantings and the 1968-72 average. Much of the planned increased is in the Delta, which was hard hit by flooding a year ago.

With nearly a fifth more acreage planned for the 1974 upland cotton crop, production will likely rebound sharply from 1973's 12.9 million bales. Thus, output will more than likely be adequate to satisfy prospective domestic and export demand for U.S. cotton during 1974/75. Mill consumption may increase modestly to about 7 3/4 million bales, primarily reflecting moderating competition from man-made fibers because of energy-related cutbacks in production. At the same time, U.S. exports are expected to total around 5 1/2 million bales, near levels of the past 2 seasons.

Uncertainties are also part of this outlook picture. There is generally inadequate subsoil moisture on the Texas High Plains. Spot shortages of fuel and fertilizer have been reported. Indications of increasing consumer resistance to higher prices could point to a slowdown in textile purchases in 1974.

UPDATE ON FARM INPUTS

Fuel

By the time spring work gets underway, fuel distribution channels under the allocation program should be established. Most farmers should experience little or no trouble obtaining needed supplies.

We estimate farm production fuel needs for 1974 will be 3 percent greater than in 1973. Although gasoline use will remain about the same as in 1973, diesel fuel consumption will increase over 8 percent, and LP gas usage will be up 3 percent.

Diesel fuel stocks are much improved this year as a result of (1) lessened demand brought on by mild winter weather and conservation measures taken by householders; and (2) the increased refinery output of middle distillates this winter.

The gasoline situation is not as satisfactory. While farmers are to receive 100 percent of current needs under the program, this applies only to bulk end users. About three-fourths of the gasoline bought by small farmers in 1971 (having sales of less than $5,000) was bought at the retail service station. While a significant number of farmers thus will be affected, the production on these farms is small.

Fuel prices will be sharply higher. Farmers, on average, can expect to pay 30-50 percent more for gasoline and diesel fuel this year.

A Haywire Situation

With hay production expected to be near the 1973 level in 1974, shortages of both baling wire and twine appear likely. Wire, in particular, may be in very short supply although manufacturers have speeded up production. Further production increases are not likely with current baling wire margins and the strong demand for other steel products.

Baling twine imports were down 14 million pounds for the year ended October 31, 1973. Imports are not expected up this year and may be slightly reduced. Domestic farm twine production represents only one-fifth of total requirements. Because carryover stocks of twine were sharply below normal at the close of the 1973 harvest season, the shortfall of farm twine is expected to be about 15 to 20 percent of 1974 requirements.

Farm twine last June cost $8.96 per bale compared with $8.10 a year earlier. In June 1974 a bale may average $20, but the price variability will be great. Wire prices are about double those of last year. Imported wire this year may retail at about $30 per box. However, much domestic wire may retail for less until current price controls are relaxed.

Western Water Outlook

The outlook for the summer's water supply in the Western States is good to excellent for most areas.

According to snowpack data, runoff forecasts for the summer mostly range from nearly average to almost twice the average runoff. The exceptions are Arizona, adjacent areas of southwestern New Mexico, and eastern sections of the Montana and Wyoming borders, from the Big Horn Mountains to the Black Hills of South Dakota.

Labor

The 1974 demand for farm labor will approximate last year's. With the expansion of cropland harvested to include some 17 million more acres —largely feed grains and wheat—one might anticipate increased demand for labor. However, the effects of such an increase in acreage on the labor input are expected to be largely mitigated by widespread adoption of energy conservation measures by farmers. These conservation measures, generally of the minimum tillage type, are also labor saving.

The aggregate farm wage bill will likely be about 8 percent higher as hired farmworker wage rates increase from the 1973 average of $2.00 per hour without room and board to around $2.20 per hour.

FOREIGN FOCUS

Farm Exports to Peak, Then Ease

Agricultural exports for the fiscal year ending June 30, 1974, are likely to total about $20 billion, nearly $7 billion above a year earlier.

There was a substantial rise in the first half of the current fiscal year to a record of $9.9 billion, with somewhat higher prices than anticipated for most commodities and with larger volumes for a number of them.

The agricultural import estimate has been revised upward to $9.5 billion, nearly $2 billion above last year. However, agriculture's contribution to the U.S. trade balance will increase to a record of about $10.5 billion, nearly doubling last year's $5.6 billion. This substantial contribution by agriculture will help offset the rising cost of U.S. imports of nonfarm products, particularly petroleum products.

Higher prices will account for about 90 percent of the increase in agricultural exports.

Agricultural exports in fiscal year 1975 may total $17 to $19 billion, second only to the record being established currently. The slowdown in economic growth because of the oil crisis, reduced foreign exchange, an expected increase in production, especially of grains, and generally lower prices are some of the factors. The projected decrease from FY 1974 is based on somewhat lower export volumes for feed grains and wheat, and lower prices for most grains and oilseeds.